

TELECOMPLUSPLC

Embargoed until 07.00

13 June 2017

Telecom Plus PLC Final Results for the year ended 31 March 2017

Telecom Plus PLC (the "Company"), the UK's leading low-cost multi-utility supplier (gas, electricity, telephony and broadband), announces its final results for the year ended 31 March 2017.

Financial Highlights:

- Results and dividend in line with expectations
- Revenue down 0.6% to £740.3m due to lower energy prices
- Adjusted profit before tax (continuing operations) up 9.1% to £53.3m
- Statutory profit before tax (continuing operations) up 16.5% to £40.9m
- Adjusted EPS (continuing operations) up 7.2% to 53.3p
- Statutory EPS (continuing operations) up 15.9% to 38.0p
- Full year dividend up 4.3% to 48p per share
- Sale of Opus shareholding generates £62.3m exceptional profit
- £25m tender offer announced

Operating Highlights:

- Further organic growth in both Members and services
- Over 600,000 Members
- Service numbers up by 4.9% to 2.3 million
- Encouraging launch of Home Insurance
- Over 1.7m LED bulbs provided and installed free of charge in over 40,000 households throughout the UK
- *Which?* 2017 Best Telecom Services Provider Award

Andrew Lindsay, CEO, commented:

"I am pleased that against a challenging market backdrop, we have achieved our 20th consecutive year of organic growth in both our membership base and the number of services we supply. Almost one in five Members are now taking all our services, which underpins the long-term sustainability of our business model by reducing churn and improving our quality of earnings."

"Winning the *Which?* 2017 Annual Award for 'Best Telecom Services Provider' is a strong endorsement of our personal approach to looking after our Members; we could not have achieved this without the hard work and dedication of our UK-based customer service team, and look forward to building on the solid foundation we have created."

"Whilst retail energy prices remain at the centre of political debate, our wholesale arrangements and retail pricing structure will help to shelter us from the impact of the proposed price cap, compared with other major suppliers. In the meantime, we expect to continue growing our customer base over the coming year, with a target increase of 5-10% in the number of services we supply, and a further increase in our dividend."

There will be a meeting for analysts at the offices of Peel Hunt, Moor House, 120 London Wall, London, EC2Y 5ET at 9.15 for 9.30am

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Notes:

This announcement contains inside information.

About Telecom Plus PLC ('Telecom Plus'):

www.utilitywarehouse.co.uk

Telecom Plus, which owns and operates the Utility Warehouse brand, is the UK's only fully integrated provider of a wide range of competitively priced utility services spanning both the Communications and Energy markets.

Members benefit from the convenience of a single monthly statement, consistently good value across all their utilities and exceptional levels of service. Telecom Plus does not advertise, relying instead on 'word of mouth' recommendation by existing satisfied Members and Partners in order to grow its market share.

Telecom Plus is listed on the London Stock Exchange (Ticker: TEP LN). For further information please visit www.utilitywarehouse.co.uk

Chairman's Statement

I am delighted to report another successful year for the Company with adjusted profits, earnings and dividends all reaching record levels. Looking at the figures from continuing operations, adjusted pre-tax profits increased by 9.1% to £53.3m (2016: £48.8m), and statutory pre-tax profits reached £40.9m (2016: £35.1m), on revenue down by 0.6% to £740.3m (2016: £744.7m); adjusted earnings per share for the year rose by 7.2% to 53.3p (2016: 49.7p), and statutory EPS increased to 38.0p (2016: 32.8p).

This performance was achieved in the face of challenging market conditions, with the strong headwinds we have seen over the last few years persisting during the first half of the year. And while the record gap between standard variable energy tariffs and aggressively priced introductory deals started to narrow during the autumn, this happened too late to provide any positive impact on our service and customer numbers for Q3.

As previously reported, we responded to this more favourable environment by making a change to our Partner compensation plan at the beginning of Q4; this gave Partners the opportunity to accelerate some of the residual income they would earn on new members who switched all their utilities to us.

This enhancement, combined with our more competitive market position, led to an increase in Partner activity as we progressed through Q4, taking full year customer and service numbers to 607,802 (2016: 598,613) and 2,288,918 (2016: 2,181,704) respectively – an increase of more than 107,000 services during the year. Within this total, there has once again been a significant improvement in customer quality, with 102,126 (2016: 76,764) residential Members now taking all our core services (landline, broadband, mobile, gas and electricity).

We received a number of further endorsements from *Which?* during the year, recognising both the value we offer and the quality of service provided by our UK-based membership support teams. In addition to being ranked amongst the top suppliers for all our core services (Energy, Broadband/Telephony and Mobile) in each of their sector surveys, we received **Recommended Provider** awards for both our Broadband and Mobile services. Further to this, we were delighted to receive the accolade of **Best Telecom Services Provider** at the recent *Which?* 2017 Annual Awards ceremony. In addition, we received four awards from Moneywise, and were voted **UK National Public Champion** (and named as a finalist in the **Business of the Year** category for companies with a turnover of €150m or higher) in the European Business Awards. These third party independent endorsements are a testament to our customer-centric approach, our commitment to treating our members fairly, our ongoing mission to be the Nation's most trusted utility provider, and the significant resources invested in delivering the best possible customer service.

Results overview

Our adjusted profit from continuing operations (ie: excluding the contribution from Opus) reflects the continuing modest organic growth over the last two years in the number of services we are providing to our Members, an increased proportion of revenues from higher margin telephony services, and a one-off recovery of costs incurred in prior years relating to the smart meter roll-out programme under our energy supply agreement, counterbalanced by recurring customer acquisition costs which were higher this year (primarily due to Daffodil), continued investment in headcount and increased spending on IT. We also generated an exceptional profit of £62.3m during the year from the sale of our 20% shareholding in Opus (see below), taking our total post-tax profit to £95.0m (2016: £31.8m).

Revenues fell slightly due to lower average energy prices (following an industry wide reduction in retail gas prices during the spring of 2016, and an increasing proportion of our customer base taking our cheapest 'Double Gold' tariffs), a reduction in average energy usage (reflecting the progressive impact of the energy efficiency measures that have been delivered by the industry over the last few years and the success of our own LED light bulb replacement service), partially offset by an increase in telephony revenues due to higher prices, more services, and a greater proportion of customers taking fibre broadband.

We received £71.1m in cash for our 20% stake in Opus Energy Group Limited ('Opus') following its acquisition by Drax Plc in February 2017; this transaction generated an exceptional profit of £62.3m which is included in our results for the year, alongside a contribution of £2.2m from our share of its profit up to the date of disposal.

Dividend

In line with previous guidance, we are proposing a final dividend of 25p (2016: 24p), bringing the total for the year to 48p (2016: 46p); this represents an increase of 4.3% compared with last year, and will be paid on 28 July 2017 to shareholders on the register at the close of business on 7 July 2017 subject to approval by shareholders at the Company's AGM which will be held on 20 July 2017. We remain committed to a progressive dividend policy consistent with the underlying strong cash generation of our business.

Proposed Share Buyback

We previously announced our intention to carry out a tender offer this summer, under which we would seek to return to shareholders the cash we received from the sale of our stake in Opus; we have now decided to reduce the maximum size of this tender offer to £25m.

This will provide greater flexibility for the Company to take advantage of the strategic opportunities that we expect to arise over the next few years, resulting from the rapidly changing political and regulatory environment for the services we supply.

Full details of the tender offer will be included with the AGM documents which will be sent to all shareholders shortly.

Churn

Our churn remains significantly below prevailing industry levels, and we are encouraged by the clear downward trend that has started to develop since last autumn. We attribute this to a combination of factors including a reduction in the gap between standard variable tariffs and introductory deals, increased investment by us in retention activities, and the steadily improving quality of our customer base. It is particularly encouraging that this has been achieved against an industry background which has seen record numbers of households switching their energy supplier over recent months.

Proposed Energy Price Cap

It is encouraging that both the major political parties included a commitment in their recent General Election manifestoes to address one of the main issues within the energy industry, namely the practice by many large suppliers of using the higher margins earned on disengaged legacy customers to offer significantly cheaper deals which are only available to those who switch. If implemented, we believe these manifesto proposals will create a fairer energy market, with lower energy bills for millions of disengaged households who are

currently paying more than they should, simply because (for whatever reason) they are not switching supplier on a regular basis.

In particular, we do not share the view widely expressed by some of the other large suppliers that a widespread cap on standard variable tariffs will be damaging to competition, as the wide choice of attractively priced tariffs from the vast majority of independent suppliers who do not exploit their customers in this way would remain available. Indeed, the only tariffs that might cease to be available will be the relatively small number which are being unfairly cross-subsidised by those who are shouting the loudest against this proposal.

In our view, the protection of disengaged consumers requires such an absolute cap to be retained over the medium term (albeit that it will need to be reviewed on a regular basis and set at a level which enables efficient suppliers not engaged in predatory pricing to earn a reasonable margin), or replaced in due course by a long-term relative price cap as suggested recently by John Penrose MP and endorsed by many independent suppliers.

Business Development

We are encouraged by the results from the soft launch of our Home Insurance service. We anticipate volumes will start to improve from their current low levels as we start marketing this new service more pro-actively, and remain confident that Insurance has the potential to make a material contribution to the financial performance of the group in due course.

The downward trend in energy prices which has prevailed for over three years has started to reverse, with rising commodity prices being accompanied by higher regulatory, distribution and policy costs. This has led to higher retail prices for both standard variable tariffs and fixed price introductory deals, albeit that the gap between them has narrowed. Although undoubtedly positive for us, this gap still remains significantly wider than we would have liked, due partly to the continuing practice by some suppliers of simultaneously offering both an expensive Standard Variable Tariff ('SVT') and a cheap introductory fixed price deal, and also the decision by a number of new suppliers to price their energy at near zero gross margin in order to attract market share.

The energy market remains polarised between the 'Big 6', who are broadly maintaining or increasing profitability whilst losing customers, and a rapidly increasing number of independent suppliers at the other end of the spectrum, who are largely gaining market share but (almost without exception) incurring significant losses whilst doing so. All of these market participants are reliant on the same wholesale costs and use similar distribution channels (namely price comparison sites and bulk switching initiatives) to attract customers who generally choose their new supplier based predominantly on price and, in many cases, will switch again as soon as they reach the end of their introductory fixed-price period. And although new suppliers enjoy a significant initial cost advantage by being exempt from certain policy costs, these cease to apply as they gain scale. We find it difficult to understand how in the face of these market dynamics, this multitude of sub-scale competitors can develop a viable long-term business model.

Project Daffodil, our innovative free LED light bulb replacement service, has gathered momentum over the course of the year, and has now been provided in over 40,000 households. We are now installing free light bulbs in around 3,500 households each month; this is available to both new and existing Members who have switched their energy and telephony services to us. Daffodil reduces household electricity usage for the vast majority of Members receiving this benefit, which goes a long way towards narrowing the gap between our energy prices and the introductory tariffs available elsewhere; this has been a major factor behind the improvement in the quality of new Members joining the Club, as well as

encouraging existing Members to add additional services in order to take advantage of this valuable benefit.

In March, we launched a number of films featuring Joanna Lumley as the new face of Utility Warehouse, explaining who we are and the benefits we provide to those looking to save money (by joining as a new member) or make money (by becoming a Partner). These new tools were well received, and we have since seen an encouraging increase in the number of new Partners joining the business.

We have also taken steps to simplify our customer proposition, replacing the previous choice of benefits available to Double Gold Members with an extra 10% discount on the fixed monthly cost of their broadband (including landline rental) worth between £31.80 and £46.79 per year.

The mobile app we launched around 12 months ago has gained widespread acceptance, with around 65,000 Members using it each month to submit meter readings, top-up their mobile and/or CashBack card, track their mobile usage, and find their nearest CashBack retail outlets; further functionality will be added in due course, including being able to manage their insurance cover.

Our smart meter roll-out programme has been hampered by the persistent failure of one of our meter operators ("MOP") to meet their agreed service levels; in addition to slowing our rollout programme, this also affected our ability to install pre-payment meters in a significant part of the country during the second half of the year, leading to a temporary small rise in delinquency levels. Notwithstanding these challenges, we have now appointed a new MOP to take over this work, and successfully installed over 100,000 meters (around 10% of our current base).

We continue to increase our investment in IT and have completed a number of important IT projects during the year including strengthening our cyber-defences, PCI compliance, launching Home Insurance, and preparing for the mass rollout of smart metering.

By virtue of our unique route to market and focus on treating our Members fairly, we have found a balance which combines sustainable growth in both service numbers and profitability, thus creating real long term value for all our stakeholders. We remain focussed on growing our business to one million households (and beyond) over the medium term.

Route to Market

Significant numbers of new Partners continued to join the business during the year, with an improvement in the both the quality and quantity of new recruits since our annual sales conference in March. At the year end we had 41,717 registered Partners; this was below the level we reported 12 months ago largely due to our decision last autumn to start providing automatic refunds to many of those who join the business, but find themselves unable (for whatever reason) to take advantage of the opportunity we offer to build an attractive and secure part-time additional income. These early automatic refunds, combined with the natural underlying level of cancellations we would normally expect to see after 12 months, led to a larger reduction in the total number of registered partners over the period than would otherwise have occurred.

Whilst it is more challenging for Partners to gather new Members and build their Utility Warehouse businesses when there are such large pricing differentials in the energy markets, we have been pleased to see many of them still achieve significant success during the year by focussing on the unique strengths of our proposition and the exclusive benefits we offer.

We have invested in providing them with new tools to help them meet this challenge, including the new suite of films featuring Joanna Lumley, as well as continuing to improve the personal development and training programmes we make available, free of charge, to both new and existing Partners.

It is encouraging that despite the absence of 'loss leader' introductory deals for new Members, the combined impact of our improved training courses, effective Partner incentive structure, the unique multi-service proposition and attractive benefits we offer to our Members, means we are continuing to see a consistently high proportion of new Partners making a successful start to building their Utility Warehouse business.

Board Changes

We were delighted to welcome Andrew Blowers as a new independent non-executive director, who joined the Board in November. Andrew is currently a non-executive director of AA PLC, the UK's leading provider of roadside assistance, and of CETA Insurance Limited, a specialist online insurance provider. His career spans over 25 years in the UK financial services industry, including as founder and CEO of Swiftcover.com, Chairman of IIC NV, and an executive director of Churchill Insurance. He is already bringing a valuable new perspective to the Board.

As previously reported, Julian Schild, became Chairman of the Audit Committee following the retirement of Michael Pavia at last year's AGM. Andrew Blowers has replaced Julian as Chair of the Remuneration Committee, and Beatrice Hollond has become Chair of the Nomination Committee.

Corporate Governance

The UK Corporate Governance Code (the 'Code') encourages the Chairman to report personally on how the principles in the Code relating to the role and effectiveness of the Board have been applied.

As a Board we are responsible to the Company's shareholders for delivering sustainable shareholder value over the long term through effective management and good governance. A key role of mine, as Executive Chairman, is to provide strong leadership to enable the Board to operate effectively.

We believe that open and rigorous debate around key strategic issues and risks faced by the Company is important in achieving our objectives and the Company is fortunate to have non-executive directors with diverse and extensive business experience who actively contribute to these discussions.

Further detail of the Company's governance processes and compliance with the Code is set out in the Corporate Governance Statement.

Outlook

Recent Trading

Our annual sales conference took place on 18/19 March 2017, and was attended by over 5,000 Partners. At the event, we announced the launch of our Home Insurance service to Members, the introduction of new films featuring Joanna Lumley, and a simplification to our 'Double Gold' bundle making it more competitive and easier to promote.

Since making these changes the quality of new members being gathered by Partners has remained exceptionally high, with over 50% switching all their services to us. The number of

new Members is running slightly ahead of the levels we saw during the corresponding period last year, and we are also seeing encouraging numbers of new Partners joining the business.

Energy Prices

Following an extended period in which falling energy commodity prices outweighed the additional costs of renewing and extending the distribution network, replacing nuclear and coal-fired generating plants that are approaching the end of their useful lives, rolling-out smart meters, funding capacity incentives, and paying for the various renewable energy programmes which have been introduced, wholesale energy prices have increased significantly since last autumn. This has exerted significant upward pressure on retail energy prices, with both standard variable prices and the cheapest introductory deals having increased by around £90 and £140 respectively for a typical domestic customer.

It appears that the incoming Government is committed to introducing a widespread cap on standard variable tariffs. Whilst the timing of implementation, the level at which the cap would be set, and the specific details of whom it would affect are unclear, we strongly welcome this proposal as we believe it will create a fairer energy market and make it more difficult for suppliers with large legacy bases to use the profits they are earning from disengaged customers to fund cheap introductory deals to those who are switching. Whilst the gap between SVTs and the cheapest introductory deals is likely to narrow, the market will remain highly competitive, and there are many suppliers who will be unaffected by the proposed price cap who will be able to continue offering attractive tariffs to those looking to switch.

Our wholesale arrangements, retail pricing structure and low cost base mean the impact of this price cap (when implemented) on our profitability is likely to be significantly less than other major suppliers.

Regulatory

The Competition and Markets Authority published their final report on the domestic energy market during the year. Whilst we welcomed their proposals to remove the current restrictions on discounts, bundling, and the number of tariffs each supplier can offer, we believe they are fundamentally misconceived in believing their proposed database of disengaged customers will achieve anything other than greater bureaucracy, more costs and increased confusion. We hope this proposal will be quickly abandoned once the mooted price cap on standard variable tariffs takes effect.

Our programme to roll out smart meters for all our Members is well underway, with around 100,000 (largely dual fuel) meters having been installed by the beginning of June 2017. The programme is expected to gather pace over the coming months and we anticipate making good progress this year towards the 2020 target date. As previously highlighted, the financial benefits from this programme (excluding any timing differences which may arise between when costs are incurred and when they are recovered) will depend on the speed and efficiency of our roll-out relative to other suppliers. However, the continuing delays in finalising the specification of SMETS2 meters, in getting them certified, and in the smart Data Communications Company ('DCC') testing schedule, have led many commentators to question whether the original target completion date for this programme is still achievable, and the level of fulfilment costs (which will ultimately be borne by consumers) from trying to do so.

We remain concerned at the high and increasing costs imposed on the industry in order to comply with government policy, much of which seems to be imposed with inadequate thought given to delivering such initiatives in a way that will minimise costs, which ultimately

get passed on by suppliers to customers through higher bills. Examples include the current faster switching initiative, the Green Deal programme, the establishment of Smart Energy GB, the structure of the smart meter roll-out programme, the over-engineering of the specification for the DCC, and the unrealistic time-frames which are invariably adopted for any industry change.

Regulation has an important role to play in ensuring the energy markets are operating in a transparent manner, creating a framework which encourages real competition, protecting the rights of consumers, and ensuring they receive a fair deal for their energy. However, it is not clear that the right balance has recently always been struck. There needs to be a clearer understanding of the need to reduce the burden of regulation which ultimately falls on those least able to afford it – namely domestic customers.

We are disappointed that deregulating the domestic water supply market was absent from the new Government's manifesto; this would have created an exciting new opportunity for us to add the supply of water to the existing range of utilities we offer, further extending the benefits to consumers of our integrated multi-utility approach. We urge the Government not to miss the chance to introduce competition into this market, which would ultimately lead to more choice, lower prices and better service for over 27 million households who are currently forced to buy from a local monopoly water supplier.

Prospects

Successfully navigating the constant stream of changes flowing across all the sectors in which we operate is challenging, however our experienced senior management team have demonstrated a consistent ability to do so in a way which creates significant and growing value for all our stakeholders.

Our mobile proposition is currently more competitive than ever before, due to the imminent abolition of EU roaming charges, and the recent improvements we have made to data allowances for some Double Gold members. Combined with our recent award from *Which?* as the UK's best provider of Broadband and Mobile services, these are expected to further reduce mobile churn and increase penetration over the coming year.

Sales of Home Insurance policies are expected to increase as we add further underwriters to our panel, and progressively start marketing this service to both new and existing members over the course of the year. Whilst our ambitions for the current year are extremely modest, this service has the potential to make a material contribution to the business in due course.

Our strategy of achieving consistent high quality growth through delivering savings, simplicity and exceptional customer service continues to bear fruit. We have seen a significant improvement in the proportion of new members who are switching all their services to us over the course of the last two years (from c.35% to over 50%); these better quality customers have the highest expected lifetime value, although they cost significantly more to acquire. Based on recent levels of Partner activity, we anticipate the number of services we supply will increase by between 5% and 10% over the coming year.

From a financial perspective, the modest growth in the number of services added over the last few years, combined with higher customer acquisition costs (due to both faster growth and better quality new members), and an increasing investment in IT, mean that our adjusted pre-tax profits from continuing operations for the current financial year, as previously announced, are likely to be at a similar level to the year just ended. The benefit from faster organic growth will, if current trends continue, be reflected in our reported results for the following financial year.

In the meantime, and in the absence of unforeseen circumstances, the steadily improving quality of our membership base and the good visibility it provides over future revenues and margins, means that we expect to increase our dividend to 50p per share for the current year. Our intention going forward is to bring our dividend pay-out ratio back to around 85% of adjusted EPS over the medium term, whilst maintaining our progressive dividend policy.

It only remains for me to thank my boardroom colleagues for their support and all our staff and Partners for their loyalty and hard work during the past year, and to wish each and every one of them success in the years to come.

Charles Wigoder
Executive Chairman
12 June 2017

Chief Executive's Review

Markets

We supply a wide range of essential services under the Utility Warehouse brand (gas, electricity, landline, broadband and mobile) to both domestic and small business Members throughout the UK; these are all substantial markets and represent a vast opportunity for further organic growth.

The markets we operate in are dominated by a relatively small number of former monopoly suppliers and other owners of infrastructure assets, although in each there are also a number of independent suppliers carving out their own niches, generally based on offering highly competitive introductory deals promoted through price comparison sites.

Business model

We have a fundamentally different business model to any other utility provider in the UK in three key respects:

- we operate our business as a Discount Club; each of our customers becomes a Member, receiving a level of service commensurate with that status;
- we are the only fully integrated provider of both energy and communications services in the country. This enables us to enjoy unparalleled levels of operating efficiency as we are able to spread a single set of overheads across the multiple revenue streams that we derive from each of our Members; and
- we have a unique route to market, with an 'army' of over 40,000 part-time self-employed Partners; rather than seeking to attract new Members through expensive advertising or price comparison sites, we instead benefit from personal recommendations by both our Partners and our existing Members.

Partners can earn a small percentage of the monthly revenues generated by any Members gathered, either personally, or by someone in their team. On a similar basis, we reward our existing Members with shopping vouchers when they introduce a new Member to the Club.

We continue to follow a different strategy to that of our competitors in both the energy and communications markets, focussing on delivering an integrated multi-utility proposition that includes three key benefits: **Savings** (compared with the prices they were previously paying), **Simplicity** (just one convenient monthly bill making it easier to manage a significant part of their monthly household budget), and **Service** (delivered by our award-winning UK-based support teams).

These benefits are supported by our commitment to treating our Members fairly, avoiding the typical marketing strategy adopted by our competitors of combining cheap introductory deals for new customers with much higher tariffs charged to their legacy customer bases. We believe their approach is not only fundamentally unfair on loyal customers, but less likely to create a sustainable long term business, as customers who have chosen to switch once based solely on the headline price on a comparison site will have a higher propensity to do so again when their introductory deal expires; this view is supported by recent switching data within the electricity market for domestic customers, where reported churn amongst small and medium suppliers (excluding ourselves) is now running at an annualised rate of over 30%.

Our alternative approach is to focus on treating all our Members in a fair manner, and to give everyone consistently good value on all their services, rewarding loyalty and commitment with additional discounts and benefits available to our most valuable and long-standing Members.

The delivery of these core values is critical to our route to market, giving our Partners the confidence to promote our services to their friends and family – as well as generating recommendations from existing Members who in many cases also become advocates for our brand. The Net Promoter Scores ('NPS') of around 50 that we consistently achieve reflect our relentless focus on this goal, and are in stark contrast to the negative NPS scores prevalent within the utility and telecoms markets.

Against a backdrop where most of our competitors seem focussed almost solely on price, we believe that genuinely earning the **Trust** of our Members is the key point of differentiation that will enable us to achieve our medium-term growth objectives and help us maximise long term shareholder value. By treating our Members fairly, as we would like to be treated ourselves, we aim to earn both their loyalty (which delivers long term, sustainable revenues) and their enthusiasm for our business model (which creates growth through referrals).

Examples of this approach include not offering short-term discounts to new Members as an inducement to switch, and always allowing existing loyal Members to benefit from any new tariffs we introduce. And keeping our best deals and lowest prices for those who have switched the most services to us.

We continue to invest in our IT systems, which enable us to integrate all the services we supply into a single monthly bill, supported by just one set of central overheads (including all administrative and membership support functions). This highly efficient cost base is a key factor in enabling us to offer attractive pricing and a wide range of valuable benefits to our Members, a secure residual income to our Partners, and a growing dividend stream to shareholders. We have embarked on a programme to enhance and update these systems over the course of the next three to five years, and look forward to the greater business efficiency and flexibility this will deliver in due course.

We have strong commercial relationships with all our key suppliers, who recognise the value of our unique route to market and the importance of maintaining our competitive market position. To this end, there are ongoing discussions with each of them about how the market dynamics for each of our services are changing, and the best way to ensure these are appropriately reflected in our wholesale pricing structure.

We are extremely pleased with the further progress we have made this year in taking advantage of our multiple key points of differentiation, and towards securing our position as the Nation's most trusted utility provider.

Strategy

Our strategy is to progressively increase our share of the markets in which we operate through organic growth, and to build a robust, sustainable and profitable business.

We will achieve this by maintaining our focus on delivering best-in-class service and support to our Members, treating them fairly, investing in our systems and staff. We will seek to simplify and, where possible, improve the competitiveness of our services even further, encouraging existing Members to talk about the unique benefits we offer to their friends and acquaintances, and making it easier for our Partners to promote our services more effectively.

We continue to explore the possibility of expanding our current range of core services into areas where we can build upon our existing strong relationship with our Members by offering them both a better experience and better value on services they currently obtain from other

suppliers, whilst also delivering a satisfactory return for our shareholders. This approach is demonstrated by the recently announced launch of our new Home Insurance service, which we anticipate will be accompanied by a range of other insurance products in due course; in the medium term we look forward to supplying water; and in the longer term, other potential new services might include television and home emergency cover (including boiler cover), and combining the national rollout of smart meters with other 'connected home' products and services to leverage our position as the only fully integrated multi-utility supplier in the country.

Operational performance and non-financial KPIs

Despite a challenging competitive environment, our overall performance for the year has been encouraging in a number of key respects:

- continuing strong organic growth with service numbers up by 107,214 (2016: 88,257)
- materially higher proportion of Members taking our 'Double Gold' bundle
- launch of our new Home Insurance service
- successful rollout of Project Daffodil – our free LED light bulb replacement service
- introduction of new films featuring Joanna Lumley
- winner of 2017 Best Telecom Services Provider at annual *Which?* awards
- *Which?* 'Recommended Provider' for Mobile April 2017
- *Which?* 'Recommended Provider' for Broadband March 2017
- consistently high Net Promoter Scores

Against the background of a slow growing economy, and with household incomes remaining under pressure, our value-based consumer proposition and the part-time income opportunity we offer remain extremely attractive to both Members and Partners respectively.

Our continuing organic growth is underpinned by high levels of confidence amongst our Partners in our brand and financial strength, the good value we provide through our fair pricing policies, and our commitment to delivering best-in-class service and support to our Members.

Members

	<u>2017</u>	<u>2016</u>
Residential Club	578,799	568,986
Business Club	29,003	29,627
Total Club	607,802	598,613

Whilst we continue to regard our Business Club as an exciting long-term opportunity, the dynamics of this market make it extremely difficult to grow in the current energy wholesale pricing environment. Our focus will therefore remain on the domestic market, until market conditions become more favourable.

Within the residential Club, there is a significant difference in average expected customer lifetimes between Members (and therefore in the revenues and profits they will generate), depending on whether they are an owner-occupier, and on the number of services we are providing to them. The most attractive category are owner-occupiers taking our 'Double Gold' bundle.

Our focus on attracting this type of Member has been reflected in an increasing proportion of new Members switching all their services to us (landline, broadband, mobile, electricity and/or gas) over the last two years as can be seen from the following figures:

**Percentage of new
Members taking
'Double Gold' bundle**

Q1 FY16	35.1%
Q2 FY16	35.3%
Q3 FY16	46.3%
Q4 FY16	47.7%
Q1 FY17	51.5%
Q2 FY17	44.7%
Q3 FY17	46.6%
Q4 FY17	55.1%

Individual energy supply point churn remained at around 1.1% per month, driven by collective switching initiatives and a record gap during the first half of the year between the introductory fixed price deals available from other suppliers and the range of tariffs we offer. In the context of higher levels of switching activity throughout the industry, it is pleasing that the proportion of energy customers leaving us remains on average significantly below other suppliers:

**Energy
supply point churn**

FY11	16.3%
FY12	13.3%
FY13	11.2%
FY14	10.4%
FY15	11.2%
FY16	13.1%
FY17	13.2%

Average revenue per Member has once again fallen slightly, as the combined impact of falling average energy consumption and lower retail energy tariffs outweighed the benefit from the higher penetration of communications services (particularly mobile) that we are now seeing:

**Average Revenue per
Member**

1999	£190
2000	£286
2001	£316
2002	£329
2003	£459
2004	£482
2005	£505
2006	£634
2007	£801
2008	£819
2009	£1,064
2010	£1,149
2011	£1,137
2012	£1,186
2013	£1,359
2014	£1,304

2015	£1,279
2016	£1,226
2017	£1,191

(These revenue figures relate solely to our Customer Management operating segment, the figures for 2008 to 2014 inclusive are restated as detailed in the 2015 Annual Report)

Services

The full range of services we offer includes landline telephony (calls and line rental), broadband, mobile, gas, electricity, and our CashBack card. At the year end, we supplied a total of 2,288,918 services to Club Members (2016: 2,181,704), an increase of 4.9% during the year.

	<u>2017</u>	<u>2016</u>
Electricity	551,622	542,430
Gas	446,394	440,872
Fixed Telephony (calls and NGN)	320,269	306,087
Fixed Telephony (line rental)	303,787	286,763
Broadband	276,721	256,777
Mobile	201,372	169,136
CashBack card	188,753	179,639
Total	2,288,918	2,181,704
Residential Club	2,205,462	2,096,730
Business Club	83,456	84,974
Total	2,288,918	2,181,704

All the core services we provide (landline, broadband, mobile, gas and electricity) grew during the year, with the highlight being a 19% rise in the number of mobile services. This increase means that penetration of mobile within our residential Club has now reached 35%, and is starting to catch up with our other services; this is due to a strategic decision to place mobile at the heart of our retail proposition, and to improve its competitive position.

We made 4G available to our Members last Autumn, and have just increased the data allowance for Double Gold members on our ValueMax+ tariff to 10GB at no extra cost.

CashBack

Our exclusive CashBack card has proven an important Member acquisition and retention tool. It gives our Members the opportunity to achieve additional savings of between 3% and 7% on their shopping at a wide range of participating retailers, which they receive as an automatic credit on their next monthly bill from us. Since launching the programme, the total value of CashBack funded by participating retailers and credited to Members now exceeds £33m (2016: £28m).

We saw a 5% increase during the year in the number of cards in issue to 188,753 (2016: 179,639), with the c.50% of new residential Club Members gathered directly by our Partners applying for a card being partially offset by those with inactive cards choosing not to renew when their card expired. We believe this continuing strong demand demonstrates the attractiveness of this unique membership benefit, and would be even higher were it not for

the difficulties faced by some new Members in funding the switch from paying in arrears on their credit card, to paying for their purchases in advance with our prepayment card.

Many Members continue to use our online shopping portal to reduce their bills, receiving in aggregate around £0.5m of CashBack over the course of last year; this is in addition to any savings from using their CashBack Cards.

The CashBack that we pay to our Members each month is funded entirely by the retailers in the programme, and many Members achieve a reduction of 20% to 30% on the amount they pay for their utilities simply by using their CashBack card (instead of an alternative payment card) for most of their regular household shopping, and/or our online shopping portal.

Member Service and Support

We pride ourselves on delivering first-class service to our Members through a single support centre based in the UK. We try to ensure where possible that the first person a Member speaks to is able to resolve any issues they may have with their multi-utility account.

We have a relentless focus on improving the service experience we deliver to our Members; we readily invest in technology that we believe will genuinely achieve this objective, and continually assess the numerous qualitative and quantitative performance measurement tools that we employ to monitor all aspects of our Members' interactions with us to improve the overall quality of their experience.

We have been delighted at the consistently high ratings, awards and recognition we receive from Moneywise and in *Which?* magazine for the quality of the service and support provided to our Members, and the overwhelmingly positive feedback we receive from Members in our own surveys.

We were particularly proud to be win 'Best Telecommunications Services Provider' at the 2017 *Which?* Awards Ceremony a few weeks ago, alongside being voted UK National Public Champion in the European Business Awards. These are clear independent third party endorsements of our commitment to looking after our customers, and treating them as we would wish to be treated ourselves.

Partners

Our Partners are one of the key strengths of our business. In contrast to the routes to market adopted by other suppliers of similar household services, the alignment of financial interest provided by our revenue-sharing model, the structure of our compensation plan, and the substantial number of Partners who hold equity or share options in the Company, incentivise them to focus their activities on finding creditworthy higher-spending Members who will reap the maximum savings from using our services, and will thus be least likely to churn; by doing so, they maximise their own long-term income. This ensures that cases of mis-selling are both inadvertent and extremely rare.

We provide a variety of training and personal development courses, both online and classroom-based, designed to provide the skills and knowledge they need to gather Members and recruit other Partners effectively and successfully; all of these courses are free to attend. In addition, we offer a hire purchase scheme which gives Partners access to a Tablet so they can present the benefits of our unique Discount Club more effectively.

We introduced a new Quick Income Plan on 1st January 2017, giving Partners the opportunity to accelerate some of their residual income. This has been well received, and enables any Partner

who wants to develop their Utility Warehouse business on a full-time basis, to earn a full-time income whilst they do so. As such, it has the potential to transform the way potential new recruits look at this opportunity.

Our Car Plan, which provides eligible Partners with a subsidised Utility Warehouse branded BMW Mini (or in some cases a BMW X5), remains extremely popular with around 900 vehicles now delivered (2016: c.800). Owners inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new Members and Partners.

Smart Meter roll-out

We have installed around 100,000 smart meters to date notwithstanding operational challenges with one of our MOPs which meant we were unable to achieve the number of installations that we had forecast last year. Having addressed these issues, our rollout this year is currently running ahead of forecast.

The industry anticipates the transition from first generation SMETS1 smart meters to second generation SMETS2 smart meters will occur this autumn, and we look forward to further accelerating our rollout programme thereafter.

In addition to much-debated efficiency benefits, smart meters have the potential to materially improve the relationship between customers and energy suppliers. We are therefore broadly supportive of the nationwide smart meter programme, albeit we remain concerned over the significant additional costs that are being incurred as a result of an ill-conceived and sub-optimum rollout strategy – a cost that will ultimately be met by consumers.

IT Systems

The journey we embarked on last year to start reviewing the systems and processes which have evolved over the course of the last 20 years, and to prepare for the introduction of new services, is gathering steam. And while this is creating significant additional costs in the short term, with benefits that may take many years to arrive, I am confident that making this investment is the right decision for the business.

In the meantime, our operating costs remain lower than those of any of our peers on a like-for-like basis, and we look forward to the operating efficiencies and performance improvements which our new systems are expected to deliver in due course.

Andrew Lindsay MBE

Chief Executive Officer

12 June 2017

Financial Review

Overview of Results

<i>Continuing operations</i>	Adjusted¹			Statutory		
	2017	2016	Change	2017	2016	Change
Revenue	£740.3m	£744.7m	(0.6)%	£740.3m	£744.7m	(0.6)%
Profit before tax	£53.3m	£48.8m	9.1%	£40.9m	£35.1m	16.5%
Basic EPS	53.3p	49.7p	7.2%	38.0p	32.8p	15.9%
Dividend per share	48.0p	46.0p	4.3%	48.0p	46.0p	4.3%

¹ As a result of the relative size and historical volatility of share incentive scheme charges (£1.2m), these are excluded from adjusted profit before tax and adjusted basic EPS. In view of the size and nature of the charge as a non-cash item, the amortisation of the intangible asset (£11.2m) arising on entering into the energy supply arrangements with Npower in December 2013 has also been excluded from adjusted profit before tax and adjusted basic EPS. For ease of comparability, following the sale of the Group's 20% shareholding in Opus Energy Group Limited ('Opus') in February 2017 (resulting in Opus becoming a discontinued operation), the contribution from Opus across all years and the profit from its sale in 2017 have been excluded in the above table.

Summary

The small decrease in revenue during the year has been driven mainly by lower average energy prices as a result of retail gas price reductions in the Spring of 2016, and reduced average energy usage due to the continuing impact of energy efficiency measures across the industry combined with a steadily increasing number of LED light bulbs installed in our Member's homes following the progressive successful implementation of Project Daffodil (the provision of free LED light-bulbs to multi-service Members). These negative factors were partly offset by an increase in telephony revenues, resulting from an increasing penetration of fibre broadband and some higher fixed monthly charges, and the overall increase in the number of services provided to Members.

The improvement in adjusted pre-tax profits (continuing operations) of 9.1% mainly reflects the continuing modest organic growth over the last two years in the number of services we are providing to our Members, an increased proportion of revenues from higher margin telephony services relative to energy services, and a one-off recovery of £4.2m of costs incurred in prior years relating to the smart meter roll-out programme under our energy supply agreement (of which 70% was credited to cost of sales with the remaining 30% credited to administrative expenses). These are counterbalanced by recurring higher customer acquisition costs, increased investment in staff headcount and higher IT related charges. We also generated an exceptional profit of £62.3m during the year from the sale of our 20% shareholding in Opus (see below), taking our total statutory post-tax profit to £95.0m (2016: £31.8m).

Within our Customer Acquisition operating segment, losses increased to £18.3m (2016: £14.6m) primarily due to the inclusion of a full year of costs from Project Daffodil and an increase in the proportion of new members switching all their services to us.

Distribution expenses reduced slightly to £21.1m (2016: £21.4m), mainly reflecting lower energy commissions (following the reduction in energy revenues previously highlighted), partly offset by increased commissions paid to Partners on the larger number of services being taken by our growing membership base.

Administrative expenses increased during the year by £2.8m to £55.2m (2016: £52.4m) mainly as a result of continued investment in growing staff headcount to sustain our current high standards of customer service as the business grows, and higher IT related charges.

Adjusted earnings per share (continuing operations) increased by 7.2% to 53.3p (2016: 49.7p), statutory EPS (continuing operations) 38.0p (2016: 32.8p). In accordance with previous guidance and our strong cash position, the Board is proposing to pay a final dividend of 25p (2016: 24p) per share, making a total dividend of 48p (2016: 46p) per share for the year.

Margins

Our overall gross margin for the year was 17.6% (2016: 16.6%) reflecting the shifting mix from energy towards higher margin telephony services, and the recovery of previously incurred smart meter rollout costs mentioned above.

Customer Management

We have continued to achieve steady growth in the number of services we are supplying, with an increase of over 107,000 services during the course of the year. This takes the total number of services provided within our Discount Club to almost 2.3 million – an increase of 4.9% compared with the previous year.

We continue to focus on making it easier for Partners to gather new Members by simplifying our processes, improving membership benefits, making our prices more competitive, and improving the quality of service and support we provide to our membership base. As a result, all our core services have continued to see organic growth in a challenging competitive environment.

Revenues decreased slightly overall due to reduced gas pricing and lower average consumption across both types of energy service, with growing revenues in all other service areas following increases in the number of services being provided:

Revenues £m	2017	2016
Electricity	310.4	313.7
Gas	265.8	273.9
Landline and Broadband	106.7	102.1
Mobile	27.5	24.4
Other	12.4	13.8
	722.8	727.9

Customer Acquisition

Our Customer Acquisition operating segment loss increased during the year to £18.3m (2016: £14.6m), mainly due to the inclusion of a full year of costs relating to Project Daffodil, our free LED replacement light-bulb offer to multi-service Members, where the mass-rollout started in January 2016.

Distribution and Administrative Expenses

Distribution expenses include the share of our revenues that we pay as commission to Partners, together with other direct costs associated with gathering new Members which are included as part of the Customer Acquisition Segment result for the year. These reduced slightly to £21.1m (2016: £21.4m), mainly reflecting lower energy commissions following the industry wide gas

price reductions at the start of the financial year, partly offset by increased commissions paid to Partners from the increase in new Members and services.

Within administrative expenses, the bad debt charge for the year fell slightly to 1.1% of revenues (2016: 1.2%), falling in absolute terms to £7.8m (2016: £8.4m).

The number of prepayment meters we installed during the year, many of which were provided at the Member's own request, fell to 5,357 (2016: 6,775), partly due to delays in fitting prepayment meters following service level issues with one of our meter operators ('MOPs') in the second half of the year; a new MOP has recently been appointed to take on this work. At the end of the year we had an installed base of 69,828 (2016: 71,026) prepayment meters, representing approximately 7.0% of the energy services we supply; this remains significantly below the average level of prepayment meters within the industry of around 16% (source: CMA).

Delinquent Members

FY12	1.46%
FY13	1.23%
FY14	1.15%
FY15	1.10%
FY16	1.09%
FY17	1.15%

Delinquency (the proportion of Members who have at least two energy bills outstanding) has been on a steady downward trajectory over the last few years, although in the last year it has increased slightly to 1.15% (2016: 1.09%). This increase is primarily due to a delay in fitting prepayment meters during the second half of the year, which resulted from operational challenges with one of our MOPs; this issue should be resolved over the coming months following the recent appointment of a new MOP.

The average number of employees increased from 908 to 1,049. This reflects our commitment to continue delivering the best possible experience to our Members (increasing numbers of which are taking multiple services from us), the additional services we are now supporting (such as Insurance, Daffodil and the smart meter roll-out) and a significant ongoing investment in strengthening both our IT resources and our management team. Personnel expenses (excluding the non-cash accounting cost of share incentive schemes) increased by 14.5% during the year to £35.3m (2016: £30.8m).

Overall, administrative expenses increased during the year by £2.8m to £55.2m (2016: £52.4m) mainly as a result of higher staff costs and increased investment in IT, partly offset by the recovery of previously incurred smart meter rollout costs mentioned above.

Opus

Our 20% stake in Opus Energy Group Limited ('Opus') was sold in February 2017, resulting in Opus becoming a discontinued operation. The sale resulted in the receipt of £71.1m of cash and an exceptional profit from the sale of £62.3m. As explained in the Chairman's Statement above, we intend to undertake a tender offer this summer, through which we will be seeking to return up to £25m of these proceeds to shareholders; full details will be sent to shareholders alongside the forthcoming AGM documents.

Cash, Capital Expenditure and Working Capital

During the year we received an exceptional cash inflow of £71.1m following the sale of our shareholding in Opus, paid the £21.5m deferred consideration to npower, and fully repaid our revolving borrowing facilities pending the announced tender offer. We ended the period with no debt and a cash balance of £18.7m (2016: cash before borrowings of £35.3m).

As expected, our net working capital position showed a year on year cash outflow of £9.2m primarily due to timing differences related to our energy purchasing arrangements with npower.

Under the terms of our energy supply arrangements, Npower remains responsible for funding the working capital requirements associated with providing energy to Members who have chosen to pay on a Budget Plan.

Borrowings

Our balance sheet at the year-end shows a net cash position of £18.7m with zero debt drawn down from our revolving borrowing facilities (2016: net debt of £56.3m), following receipt of the £71.1m proceeds from the sale of our shareholding in Opus. Following the return of cash to shareholders under the impending share tender offer, the Group's Net Debt / EBITDA ratio would still remain below 1.0x.

Dividend

The final dividend of 25p per share (2016: 24p) will be paid on 28 July 2017 to shareholders on the register at the close of business on 7 July 2017 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 20 July 2017. This makes a total dividend payable for the year of 48p (2016: 46p), an increase of 4.3% compared with the previous year.

We believe our strong underlying cash flow, rising adjusted earnings and strong credit profile will enable us to refinance any remaining borrowings as they fall due, whilst maintaining a progressive dividend policy. In the light of the steadily improving quality of our membership base and the good visibility it provides over future revenues and margins, we expect to increase our dividend to 50p per share for the current year. Our intention going forward is to bring our dividend pay-out ratio back to around 85% of adjusted EPS over the medium term, whilst maintaining our current progressive dividend policy.

Share Incentive Scheme Charges

Operating profit is stated after share incentive scheme charges of £1.2m (2016: £2.5m). These relate to an accounting charge under IFRS 2 Share Based Payments ('IFRS 2').

As a result of the relative size of share incentive scheme charges as a proportion of our pre-tax profits, we are separately disclosing this amount within the Consolidated Statement of Comprehensive Income for the period (and excluding these charges from our calculation of adjusted profits and earnings) so that the underlying performance of the business can be clearly identified. Our current adjusted earnings per share have also therefore been adjusted to eliminate these share incentive scheme charges.

Taxation

A full analysis of the taxation charge for the year is set out in note 4 to the financial statements in the Annual Report. The tax charge for the year is £10.4m (2016: £8.9m).

The effective tax rate for the year was 9.9% (2016: 21.9%), due to the sale of our 20% shareholding in Opus on which no tax will be paid as it is eligible for the substantial shareholding exemption. Excluding the sale of Opus and the share of profit from Opus in both years, the effective tax rates for 2017 and 2016 would be 25.5% and 25.4% respectively.

Nick Schoenfeld

Chief Financial Officer

12 June 2017

Principal Risks and Uncertainties

Background

The Group faces various risk factors, both internal and external, which could have a material impact on long-term performance. However, the Group's underlying business model is considered relatively low-risk, with no need for management to take any disproportionate risks in order to preserve or generate shareholder value.

The Group continues to develop and operate a consistent and systematic risk management process, which involves risk ranking, prioritisation and subsequent evaluation, with a view to ensuring all significant risks have been identified, prioritised and (where possible) eliminated, and that systems of control are in place to manage any remaining risks.

A formal document is prepared by the executive directors and senior management team on a regular basis detailing the key risks faced by the Group and the operational controls in place to mitigate those risks; this document is then reviewed by the Audit Committee. No new principal risks have been identified during the period, and save as set out below, nor has the magnitude of any risks previously identified significantly changed during the period.

Business model

The principal risks outlined below should be viewed in the context of the Group's business model as a reseller of utility services (gas, electricity, fixed line telephony, mobile telephony, broadband and insurance services) under the Utility Warehouse and TML brands. As a reseller, the Group does not own any of the network infrastructure required to deliver these services to its membership base. This means that while the Group is heavily reliant on third party providers, it is insulated from all the direct risks associated with owning and/or operating such capital intensive infrastructure itself.

The Group's services are promoted using 'word of mouth' by a large network of independent Partners, who are paid solely on a commission basis. This means that the Group has limited fixed costs associated with acquiring new Members.

The principal specific risks arising from the Group's business model, and the measures taken to mitigate those risks, are set out below.

Reputational risk

The Group's reputation amongst its Members, suppliers and Partners is believed to be fundamental to the future success of the Group. Failure to meet expectations in terms of the services provided by the Group, the way the Group does business or in the Group's financial performance could have a material negative impact on the Group's performance.

In relation to the service provided to its membership base, reputational risk is principally mitigated through the Group's recruitment processes, a focus on closely monitoring staff performance, including the use of direct feedback surveys from Members (Net Promoter Score), and through the provision of rigorous staff training.

Responsibility for maintaining effective relationships with suppliers and Partners rests primarily with the appropriate member of the Group's senior management team with responsibility for the relevant area. Any material changes to supplier agreements and Partner commission arrangements which could impact the Group's relationships are generally negotiated by the executive Directors and ultimately approved by the full Board.

Information technology risk

The Group is dependent on its proprietary billing and membership management software for the successful operation of its business model. This software is developed and maintained in accordance with the changing needs of the business by a team of highly skilled, generally long-standing, motivated and experienced individuals. The Group relies on this software and any failure in its operation could negatively impact service to Members and potentially be damaging to the Group's brand.

All significant changes which are made to the billing and membership management software are tested as extensively as reasonably practicable before launch and are ultimately approved by the Chief Technology Officer and Billing departments in consultation with the Chief Executive as appropriate.

Back-ups of both the software and underlying billing and membership data are made on a regular basis and securely stored off-site. The Group also maintains a disaster recovery facility in a warm standby state in the event of a failure of the main system, designed to ensure that a near-seamless service to Members can be maintained.

The Group has full strategic control over the source code behind its billing and membership management system, thereby removing any risk of future software development not being able to meet the precise requirements of the Group.

Data security risk

The Group processes sensitive personal and commercial data during the course of its business. The Group looks to protect customer and corporate information and data and to keep its infrastructure secure. A significant breach of cyber security could result in the Group facing prosecution and fines, loss of commercially sensitive information, financial losses from fraud and theft, lost productivity from not being able to process orders and invoices, and unplanned costs to restore and improve the Group's security. This could damage the Group's brand and distributor confidence which might take an extended period of time to rebuild. Ultimately, individuals' welfare could be put at risk in the event that the Group was not able to provide services or personal data was misappropriated. The Group uses high specification firewalling, network segmentation, and multifaceted network and endpoint anti-viral mitigation systems; external consultants are also used to conduct penetration testing of the Group's internal and external IT infrastructure.

Legislative and regulatory risk

The Group is subject to varying laws and regulations, including possible adverse effects from European regulatory intervention. The energy markets in the UK and Continental Europe are subject to comprehensive operating requirements as defined by the relevant sector regulators and/or government departments. Amendments to the regulatory regime could have an impact on the Group's ability to achieve its financial goals and any failure to comply may result in the Group being fined and lead to reputational damage which could impact the Group's brand. Furthermore, the Group is obliged to comply with retail supply procedures, amendments to which could have an impact on operating costs.

The Group is a licenced gas and electricity supplier, and therefore has a direct regulatory relationship with Ofgem. If the Group fails to comply with its licence obligations, it could be subject to fines or to the removal of its respective licences.

Proposed regulatory changes such as the imposition of retail energy price caps, the rapid rollout programme of smart energy meters (with the potential for additional costs if existing meters must be replaced prior to the end of their planned lives), and the replacement of existing environmental and social policies, could all have a potentially significant impact on the sector, and the net profit margins available to energy suppliers.

In general, the majority of the Group's services are supplied into highly regulated markets, and this could restrict the operational flexibility of the Group's business. In order to mitigate this risk, the Group seeks to maintain appropriate relations with both Ofgem and Ofcom (the UK regulators for the energy and communications markets respectively), the Department for Business, Energy and Industrial Strategy ('BEIS'), and the Financial Conduct Authority ('FCA'). The Group engages with officials from all these organisations on a periodic basis to ensure they are aware of the Group's views when they are consulting on proposed regulatory changes or if there are competition issues the Group needs to raise with them.

It should be noted that the regulatory environment for the various markets in which the Group operates is generally focussed on promoting competition; it therefore seems reasonable to expect that most potential changes will broadly be beneficial to the Group, given the Group's relatively small size compared to the former monopoly incumbents with whom it competes, although these changes, and their actual impact, will always remain uncertain.

Political and consumer concern over energy prices and fuel poverty may lead to further reviews of the energy market which could result in further consumer protection legislation being introduced through energy supply licences with price controls for certain customer segments currently being proposed. In addition, political and regulatory developments affecting the energy and telecoms markets within which the Group operates may have a material adverse effect on the Group's business, results of operations and overall financial condition.

Financing risk

The Group has debt service obligations which may place operating and financial restrictions on the Group. This debt could have adverse consequences insofar as it: (a) requires the Group to dedicate a proportion of its cash flows from operations to fund payments in respect of the debt, thereby reducing the flexibility of the Group to utilise its cash to invest in and/or grow the business; (b) increases the Group's vulnerability to adverse general economic and/or industry conditions; (c) may limit the Group's flexibility in planning for, or reacting to, changes in its business or the industry in which it operates; (d) may limit the Group's ability to raise additional debt in the long term; and (e) could restrict the Group from making larger strategic acquisitions or exploiting business opportunities.

Each of these prospective adverse consequences (or a combination of some or all of them) could result in the potential growth of the Group being at a slower rate than may otherwise be achieved.

Fraud and bad debt risk

The Group has a universal supply obligation in relation to the provision of energy to domestic customers. This means that although the Group is entitled to request a reasonable deposit from potential new Members who are not considered creditworthy, the Group is obliged to supply domestic energy to everyone who submits a properly completed application form. Where Members subsequently fail to pay for the energy they have used ('Delinquent Members'), there is likely to be a considerable delay before the Group is able to control its exposure to future bad debt from them by either switching their smart meters to pre-payment mode, installing a pre-payment meter or disconnecting their supply, and the costs associated with preventing such Delinquent Members from increasing their indebtedness are not always fully recovered.

Fraud and bad debt within the telephony industry may arise from Members using the services, or being provided with a mobile handset, without intending to pay their supplier. The amounts involved are generally relatively small as the Group has sophisticated call traffic monitoring systems to identify material occurrences of usage fraud. The Group is able to immediately eliminate any further usage bad debt exposure by disconnecting any telephony service that demonstrates a suspicious usage profile, or falls into arrears on payments.

More generally, the Group is also exposed to payment card fraud, where Members use stolen cards to obtain credit (e.g. on their CashBack card) or goods (e.g. Smartphones and Tablets) from the Group; the Group regularly reviews and refines its fraud protection systems to reduce its potential exposure to such risks.

Wholesale prices risk

The Group does not own or operate any utility network infrastructure itself, choosing instead to purchase the capacity needed from third parties. The advantage of this approach is that the Group is protected from technological risk, capacity risk or the risk of obsolescence, as it can purchase the amount of each service required to meet its Members' needs.

Whilst there is a theoretical risk that in some of the areas in which the Group operates it may be unable to secure access to the necessary infrastructure on commercially attractive terms, in practice the pricing of access to such infrastructure is either regulated (as in the energy market) or subject to significant competitive pressures (as in telephony and broadband). The profile of the Group's Members, the significant quantities of each service they consume in aggregate, and the Group's clearly differentiated route to market has historically proven attractive to infrastructure owners, who compete aggressively to secure a share of the Group's growing business.

The supply of energy has different risks associated with it. The wholesale price can be extremely volatile, and Member demand can be subject to considerable short term fluctuations depending on the weather. The Group has a long-standing supply relationship with npower under which the latter assumes the substantive risks and rewards of hedging and buying energy for the Group's Members, and where the price paid by the Group is set by reference to the average of the standard variable tariffs charged by the 'Big 6' to their domestic customers less an agreed discount; this may not be competitive against the wholesale prices paid by new and/or other independent suppliers. However, if the Group did not have the benefit of this long term supply agreement it would be exposed to the pricing risk of securing access to the necessary energy on the open market and the costs of balancing.

Competitive risk

The Group operates in highly competitive markets and significant service innovations or increased price competition could impact future profit margins. In order to maintain its competitive position, there is a consistent focus on ways of improving operational efficiency. New service innovations are monitored closely by senior management and the Group is generally able to respond within an acceptable timeframe by offering any new services using the infrastructure of its existing suppliers. The increasing proportion of Members who are benefiting from the genuinely unique multi-utility solution that is offered by the Group, and which is unavailable from any other known supplier, is considered likely to materially reduce any competitive threat.

The Directors anticipate that the Group will face continued competition in the future as new companies enter the market and alternative technologies and services become available. The Group's services and expertise may be rendered obsolete or uneconomic by technological advances or novel approaches developed by one or more of the Group's competitors. In the event that smaller independent energy suppliers were to experience financial difficulties as a result of increasing wholesale prices for instance, it is possible that customers could also have a loss of confidence in the Group, given that it is also an independent energy supplier. The existing approaches of the Group's competitors or new approaches or technologies developed by such competitors may be more effective or affordable than those available to the Group. There can be no assurance that the Group will be able to compete successfully with existing or potential competitors or that competitive factors will not have a material adverse effect on the Group's business, financial condition or results of operations. However, as the Group's membership base continues to rise, competition amongst suppliers of services to the Group is expected to increase. This has already been evidenced by various volume-related growth

incentives which have been agreed with the Group's three largest wholesale suppliers. This should also ensure that the Group has direct access to new technologies and services available to the market.

Infrastructure risk

The provision of services to the Group's Members is reliant on the efficient operation of third party physical infrastructure. There is a risk of disruption to the supply of services to Members through any failure in the infrastructure e.g. gas shortages, power cuts or damage to communications networks. However, as the infrastructure is generally shared with other suppliers, any material disruption to the supply of services is likely to impact a large part of the market as a whole and it is unlikely that the Group would be disproportionately affected. In the event of any prolonged disruption isolated to the Group's principal supplier within a particular market, services required by Members could in due course be sourced from another provider.

Energy industry estimation risk

A significant degree of judgement and estimation is required in order to determine the actual level of energy used by Members and hence that should be recognised by the Group as sales. There is an inherent risk that the estimation routines used by the Group do not in all instances fully reflect the actual usage of Members. However, this risk is mitigated by the relatively high proportion of Members who provide meter readings on a periodic basis, and the rapid anticipated growth in the installed base of smart meters resulting from the national rollout programme.

Gas Leakage within the national gas distribution network

The operational management of the national gas distribution network is outside the control of the Group. There is a risk that the level of leakage in future could be higher than those historically experienced, and above the level currently expected.

Key man risk

The Group is dependent on its key management for the successful development and operation of its business. In the event that any or all of the members of the key management team were to leave the business, it could have a material adverse effect on the Group's operations.

Single site risk

The Group operates from one principal site and, in the event of significant damage to that site through fire or other issues, the operations of the Group could be adversely affected.

Acquisition Risk

The Group may invest in other businesses, taking a minority, majority or 100% equity shareholding, or through a joint venture partnership. Such investments may not deliver the anticipated returns, and may require additional funding in future.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2017

	<i>Note</i>	2017 £'000	2016 £'000
<i>Continuing operations</i>			
Revenue	1	740,290	744,732
Cost of sales		(609,859)	(620,858)
Gross profit		<u>130,431</u>	<u>123,874</u>
Distribution expenses		(21,116)	(21,424)
Share incentive scheme charges		(101)	(36)
Total distribution expenses		(21,217)	(21,460)
Administrative expenses		(55,195)	(52,355)
Share incentive scheme charges		(1,084)	(2,479)
Amortisation of energy supply contract intangible		(11,228)	(11,228)
Total administrative expenses		(67,507)	(66,062)
Other income		449	397
Operating profit	1	<u>42,156</u>	<u>36,749</u>
Financial income		89	126
Financial expenses		(1,378)	(1,801)
Net financial expense		<u>(1,289)</u>	<u>(1,675)</u>
Profit before taxation		<u>40,867</u>	<u>35,074</u>
Taxation		(10,424)	(8,909)
Profit for period		<u>30,443</u>	<u>26,165</u>
<i>Discontinued operations</i>			
Profit for period from associate		64,517	5,609
Profit and other comprehensive income for the year attributable to owners of the parent		<u>94,960</u>	<u>31,774</u>
Basic earnings per share			
<i>Continuing operations</i>		38.0p	32.8p
<i>Discontinued operations</i>		80.6p	7.0p
	2	<u>118.6p</u>	<u>39.8p</u>
Diluted earnings per share			
<i>Continuing operations</i>		37.8p	32.6p
<i>Discontinued operations</i>		80.1p	7.0p
	2	<u>117.9p</u>	<u>39.6p</u>

Consolidated Balance Sheet

As at 31 March 2017

	2017	2016
	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	31,117	33,063
Investment property	9,089	9,211
Intangible assets	190,575	198,364
Goodwill	3,742	3,742
Investments in associate	-	11,604
Other non-current assets	15,593	13,800
Total non-current assets	<u>250,116</u>	<u>269,784</u>
Current assets		
Inventories	2,676	2,762
Trade and other receivables	29,812	27,749
Prepayments and accrued income	98,320	97,233
Cash	18,732	35,343
Total current assets	<u>149,540</u>	<u>163,087</u>
Total assets	<u>399,656</u>	<u>432,871</u>
Current liabilities		
Deferred consideration	-	(21,500)
Trade and other payables	(24,608)	(26,580)
Current tax payable	(5,407)	(936)
Accrued expenses and deferred income	(111,322)	(114,583)
Total current liabilities	<u>(141,337)</u>	<u>(163,599)</u>
Non-current liabilities		
Long term borrowings	-	(70,152)
Deferred tax	(605)	(839)
Total non-current liabilities	<u>(605)</u>	<u>(70,991)</u>
Total assets less total liabilities	<u>257,714</u>	<u>198,281</u>
Equity		
Share capital	4,024	4,016
Share premium	138,642	137,729
Treasury shares	(760)	(760)
JSOP reserve	(1,150)	(1,150)
Retained earnings	116,958	58,446
Total equity	<u>257,714</u>	<u>198,281</u>

Consolidated Cash Flow Statement

For the year ended 31 March 2017

	2017	2016
	£'000	£'000
Operating activities		
Profit before taxation – continuing operations	40,867	35,074
Adjustments for:		
Net financial expense	1,289	1,675
Depreciation of property, plant and equipment	3,203	3,596
Profit on disposal of fixed assets	(21)	(12)
Amortisation of intangible assets	12,088	11,228
Amortisation of debt arrangement fees	229	985
Decrease/(increase) in inventories	86	(1,869)
(Increase)/decrease in trade and other receivables	(4,084)	8,202
(Decrease)/increase in trade and other payables	(5,241)	1,206
Share incentive scheme charges	1,185	2,515
Corporation tax paid	(6,190)	(8,755)
Net cash flow from operating activities	<u>43,411</u>	<u>53,845</u>
Investing activities		
Purchase of property, plant and equipment	(2,066)	(4,080)
Purchase of intangible assets	(3,406)	-
Disposal of property, plant and equipment	60	22
Payment of deferred consideration	(21,500)	-
Disposal of associated company	71,103	-
Distribution from associated company	5,074	5,474
Purchase of shares in associated company	(55)	(626)
Interest received	91	115
Cash flow from investing activities	<u>49,301</u>	<u>905</u>
Financing activities		
Dividends paid	(37,633)	(34,331)
Interest paid	(1,370)	(2,202)
Drawdown of long term borrowing facilities	-	71,241
Repayment of long term borrowing facilities	(71,241)	(70,000)
Fees associated with long term borrowing facilities	-	(1,147)
Issue of new ordinary shares	921	496
Cash flow from financing activities	<u>(109,323)</u>	<u>(35,943)</u>
(Decrease)/increase in cash and cash equivalents	(16,611)	18,807
Net cash and cash equivalents at the beginning of the year	35,343	16,536
Net cash and cash equivalents at the year end	<u>18,732</u>	<u>35,343</u>

Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

Consolidated	Share capital £'000	Share premium £'000	Treasury shares £'000	JSOP reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2015	4,011	137,238	(760)	(2,275)	58,106	196,320
Profit and total comprehensive income	-	-	-	-	31,774	31,774
Dividends	-	-	-	-	(34,331)	(34,331)
Credit arising on share options	-	-	-	-	1,224	1,224
Credit arising on exercise of JSOP	-	-	-	1,125	1,673	2,798
Issue of new ordinary shares	5	491	-	-	-	496
Balance at 31 March 2016	4,016	137,729	(760)	(1,150)	58,446	198,281
Profit and total comprehensive income	-	-	-	-	94,960	94,960
Dividends	-	-	-	-	(37,633)	(37,633)
Credit arising on share options	-	-	-	-	1,185	1,185
Issue of new ordinary shares	8	913	-	-	-	921
Balance at 31 March 2017	4,024	138,642	(760)	(1,150)	116,958	257,714

Notes

1. Segment reporting

The Group's reportable segments reflect the two distinct activities around which the Group is organised:

- Customer Acquisition; and
- Customer Management.

Customer Acquisition revenues mainly comprise sales of equipment including mobile phone handsets and wireless internet routers to customers. Customer Management revenues are principally derived from the supply of fixed telephony, mobile telephony, gas, electricity, internet services and home insurance to residential and small business customers.

The Board measures the performance of its operating segments based on revenue and segment result, which is referred to as operating profit. The Group applies the same significant accounting policies across both operating segments.

Operating segments – continuing operations

	Year ended 31 March 2017			Year ended 31 March 2016 (restated)		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	722,748	17,542	740,290	727,936	16,796	744,732
Segment result	60,445	(18,289)	42,156	51,305	(14,556)	36,749
Operating profit			42,156			36,749
Net financing expense			(1,289)			(1,675)
Profit before taxation			40,867			35,074
Taxation			(10,424)			(8,909)
Profit for the year from continuing operations			30,443			26,165
Segment assets	390,639	9,017	399,656	411,292	9,975	421,267
Investment in associates	-	-	-	11,604	-	11,604
Total assets	390,639	9,017	399,656	422,896	9,975	432,871
Segment liabilities	(138,850)	(3,092)	(141,942)	(231,553)	(3,037)	(234,590)
Net assets			257,714			198,281
Capital expenditure	(5,343)	(129)	(5,472)	(3,988)	(92)	(4,080)
Depreciation	3,127	76	3,203	3,515	81	3,596
Amortisation	12,088	-	12,088	11,228	-	11,228

Statutory operating profit is stated after deducting share incentive scheme charges (£1.2m) and the amortisation of the energy supply contract intangible asset (£11.2m). It also includes a one-off recovery of £4.2m of costs incurred in prior years relating to the smart meter rollout programme under our energy supply agreement.

Revenue by service

	2017	2016
	£'000	£'000
Customer Management		
- Electricity	310,370	313,689
- Gas	265,822	273,889
- Fixed communications	106,653	102,085
- Mobile	27,500	24,434
- Other	12,403	13,839
	<u>722,748</u>	<u>727,936</u>
Customer Acquisition	17,542	16,796
	<u>740,290</u>	<u>744,732</u>

The Group operates solely in the United Kingdom.

2. Earnings per share

The calculation of basic and diluted earnings per share ("EPS") is based on the following data:

	2017	2016
	£'000	£'000
Earnings for the purpose of basic and diluted EPS	94,960	31,774
Share of profit related to associate (net of tax)	<u>(64,517)</u>	<u>(5,609)</u>
Earnings for the purpose of basic and diluted EPS - continuing operations	30,443	26,165
Share incentive scheme charges (net of tax)	968	2,278
Amortisation of energy supply contract intangible assets	<u>11,228</u>	<u>11,228</u>
Earnings excluding share incentive scheme charges and amortisation of intangibles for the purpose of adjusted basic and diluted EPS	<u>42,639</u>	<u>39,671</u>
	Number	Number
	('000s)	('000s)
Weighted average number of ordinary shares for the purpose of basic EPS	80,073	79,789
Effect of dilutive potential ordinary shares (share incentive awards)	<u>438</u>	<u>363</u>
Weighted average number of ordinary shares for the purpose of diluted EPS	80,511	80,152
<i>Continuing operations</i>		
Adjusted basic EPS ¹	53.3p	49.7p

¹ Adjusted basic and diluted EPS for continuing operations exclude share incentive scheme charges and the amortisation of the intangible asset recognised as a result of the new energy supply arrangements entered into with Npower in December 2013.

Basic EPS	38.0p	32.8p
<i>Continuing operations</i>		
Adjusted diluted EPS ¹	53.0p	49.5p
Diluted EPS	37.8p	32.6p

It has been deemed appropriate to present the analysis of adjusted EPS excluding share incentive scheme charges due to the relative size and historical volatility of the charges. In view of the size and nature of the charge as a non-cash item the amortisation of intangible assets arising from the energy supply agreement with Npower has also been adjusted.

3. Dividends

	2017	2016
	£'000	£'000
Prior year final paid 24p (2016: 21p) per share	19,205	16,734
Interim paid 23p (2016: 22p) per share	<u>18,428</u>	<u>17,597</u>

The Directors have proposed a final dividend of 25p per ordinary share totalling approximately £20.1 million, payable on 28 July 2017, to shareholders on the register at the close of business on 7 July 2017. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2017. This dividend will be subject to income tax at each recipient's individual marginal income tax rate.

4. Related parties

Identity of related parties

The Company has related party relationships with its subsidiaries, formerly its associate until disposal on 10 February 2017 and with its directors and executive officers.

Transactions with key management personnel

Directors of the Company and their immediate relatives control approximately 23.3% of the voting shares of the Company. No other employees are considered to meet the definition of key management personnel other than those disclosed in the Directors' Remuneration Report.

Details of the total remuneration paid to the directors of the Company as key management personnel for qualifying services are set out below:

	2017	2016
	£'000	£'000
Short-term employee benefits	1,475	1,377
Social security costs	196	184
Post-employment benefits	80	80
	<u>1,751</u>	<u>1,641</u>
Share incentive scheme charges	186	1,555
	<u>1,937</u>	<u>3,196</u>

During the year, the Company acquired goods and services worth approximately £130,000 (2016: £59,000) from companies in which directors have a beneficial interest. No amounts

were owed to these companies by the Company as at 31 March 2017. During the year, the Company sold goods and services worth approximately £12,000 (2016: £33,000) to companies in which directors have a beneficial interest.

During the year directors purchased goods and services on behalf of the Company worth approximately £118,000 (2016: £161,000). The directors were fully reimbursed for the purchases and no amounts were owing to the directors by the Company as at 31 March 2017.

Other related party transactions

Associates

During the year ended 31 March 2017 up to the date of disposal on 10 February 2017, the associate supplied goods to the Group which amounted to £1,304,000 (2016: £1,371,000). Transactions with the associate are priced on an arm's length basis. Dividends received during the year from the associate amounted to £5,074,000 (2016: £5,474,000) relating to the financial year to 31 March 2016.

Subsidiary companies

During the year ended 31 March 2017, the Company's subsidiaries purchased goods and services from the Company in the amount of £61,235,000 (2016: £50,519,000). At 31 March 2017 the Company owed the subsidiaries £34,023,000 which is recognised within trade payables (2016: £35,466,000 owed by the Company to the subsidiaries).

5. Basis of preparation

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2017 or 2016, but is derived from those accounts. The Group's consolidated financial information has been prepared in accordance with accounting policies consistent with those adopted for the year ended 31 March 2016. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's annual general meeting. The auditor has reported on these accounts, their reports were unqualified and did not contain statements under the Companies Act 2006, s498(2) or (3).

6. Directors' responsibility statement

The directors confirm, to the best of their knowledge:

(a) the financial statements, prepared in accordance with International Financial Reporting Statements ("IFRSs") as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and

(b) the Chairman's Statement, Chief Executive's Review, Financial Review and Principal Risks and Uncertainties include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors of Telecom Plus PLC and their functions are listed below:

Charles Wigoder – Executive Chairman

Julian Schild – Deputy Chairman and Senior Non Executive Director

Andrew Lindsay – Chief Executive Officer

Nick Schoenfeld – Chief Financial Officer

Andrew Blowers – Non Executive Director

Beatrice Hollond – Non Executive Director

Melvin Lawson – Non Executive Director

By order of the Board